What to Expect When Barrick Reports Next Week

Description

Barrick Gold (TSX: ABX, NYSE: ABX) will report its third quarter earnings next Halloween Thursday. But with shares down over 45% in the past 52 weeks, this is shaping up to be a year investors would rather forget. The entire industry has been under pressure due to falling gold prices and rising costs. Additionally, Barrick has also drawn the ire of shareholders over its corporate governance practices.

So should investors expect tricks or treats from Canada's largest gold miner this quarter? Last summer's earnings report was downright scary after the company wrote off $8.7 billion in assets and slashed its dividend 75%. Nothing of that magnitude is expected next week. However, investors could catch a sneak peek of the management's turnaround plan.

Barrick by the numbers

Metric	
Analyst EPS Estimate	$0.49
Change From Year-Ago EPS	-51%
Revenue Estimate	$2.88B
Change From Year-Ago Revenue	-16%
Earning Beats in Past Year	3

Source: Yahoo! Finance

Barrick goes on a diet

Sagging metal prices is putting the pressure on Barrick to cut costs. Last quarter, new Chief Executive James Sokalsky promised a complete reorganization the company's operations. In the August conference call, Barrick announced that any project with all-in extraction costs above $1,000 per ounce will undergo mine plan adjustments, scrapped, or sold.

Already we're seeing parts of this plan being implemented. This summer Barrick agreed to sell off three mines in Western Australia known as the Yilgarn South assets to South Africa-based miner Gold Fields for $300 million. Then earlier this month Mr. Sokalsky announced at the Denver Gold Forum that the company was in talks to sell two more of its Australian gold mines – most likely the Plutonic and Kanoana operations in Western Australia. These assets combined are worth an estimated $100 million.

That still leaves eight more projects left to be reviewed. Investors should be looking for additional details in the call.

Shareholders in revolt

Barrick has become a case study in bad corporate governance. Last year the company was criticised when the board granted co-chairman John Thornton a lavish $11.9 million compensation package. This put an uncomfortable spotlight on the role of the company's founder Peter Munk who has an enormous influence in the board room in spite of holding only a small financial interest in the company.

All of which has led to full fledge revolt amongst Barrick shareholders. Earlier this month, the Ontario Teacher's Pension Plan told the *Financial Post* that it wants to see at least two thirds of the company's board independent. Currently seven out of 13 Barrick directors are independent, according to Barrick's most recent proxy statement.

U.S. hedge fund Two Fish Asset Management and Danish pension giant PGGM have echoed a similar sentiment. These funds are demanding that Barrick revise its executive compensation plan and sell off non-core assets.

Fortunately, it appears shareholders are having an impact. In September, Barrick promised to add new independent directors and pledged to review its executive pay practices following investor criticism. While I expect this to be a bigger issue at the company's annual meeting next spring, expect to hear some reaction from management in the conference call.

Foolish bottom line

The most important metric to watch this quarter will be Barrick's extraction cost per ounce. Given the fact that gold prices have remained in the doldrums, profitability will be driven by reigning in capital spending and cutting production from high cost mines. And given management's plan to proceed with the Pascua-Lama megaproject, be on the lookout for any surprise cost overruns.

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Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.

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